MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2015/ 2016

BFN2014 – FINANCIAL MANAGEMENT II

(All Sections / Groups)

02 JUNE 2016
2:30 PM – 4:30PM
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of **2** pages with **4** questions.
2. Answer **ALL** questions and the distribution of the marks for each question is given.
3. Please write all your answers in the **Answer Booklet** provided.

Please answer all the questions

Question 1: 25 marks

a) Company X has a beta of 1.6, while Company Y's beta is 0.7. The risk-free rate is 7 percent, and the required rate of return on an average stock is 12 percent. Now the expected rate of inflation built into r_{RF} rises by 1 percentage point, the real risk-free rate remains constant, the required return on the market rises to 14 percent, and betas remain constant. After all of these changes have been reflected in the data, by how much will the required return on Stock X exceed that on Stock Y?

(10 marks)

b) Johnson Industries finances its projects with 40 percent debt, 10 percent preferred stock, and 50 percent common stock.

- The company can issue bonds at a yield to maturity of 8.4 percent.
- The cost of preferred stock is 9 percent.
- The company's common stock currently sells for $30 a share.
- The company's dividend is currently $2.00 a share ($D_0$ = $2.00), and is expected to grow at a constant rate of 6 percent per year.
- Assume that the flotation cost on debt and preferred stock is zero, and no new stock will be issued.
- The company's tax rate is 30 percent.

What is the company's weighted average cost of capital (WACC)?

(15 marks)

Question 2: 25 marks

The Ali Company has the opportunity to invest in one of two mutually exclusive machines which will produce a product it will need for the foreseeable future. Machine A costs RM10 million but realizes after tax inflows of RM4 million per years. After 4 years, the machine must be replaced. Machine B cost RM15 million and realizes after tax inflows of RM3.5 million per year for 8 years, after which it must be replaced. Assume that machine prices are not expected to rise because inflation will be offset by cheaper components used in the machines. If the cost of capital is 10 percent, which machine should the company use?

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Question 3: 20 marks

Wing Company had the following balance sheet last year:			
Cash	RM 800	Accounts payable	RM 350
Account receivable	RM 450	Accrued wages	RM 150
Inventory	RM 950	Notes payable	RM 2,000
Net fixed assets	RM34,000	Mortgage	RM26,500
		Common stock	RM 3,200
		Retained earnings	RM 4,000
Total assets	RM36,200	Total liablilities & equity	RM36,200

Wing has just invented a non-slip wig for men which he expects will cause sales to double from RM10,000 to RM20,000, increasing net income to RM1,000. He feels that he can handle the increase without adding any fixed assets.

(i) Will Wing need any outside capital if he pays no dividends?

(ii) If so, how much?

Question 4: 30 marks

a)

A company forecasts the following free cash flows (shown in millions of Ringgit).

Year	1	2	3
Free Cash Flow (RM)	-20	40	42

If the weighted average cost of capital is 13 percent and the free cash flows are expected to continue growing at the same rate after Year 3, what is the value of operations in Year 0, to the nearest million?

(10 marks)

b)

AJC is considering changing from its original capital structure to a new capital structure with 50 percent debt and 50 percent equity. If it makes this change, its resulting market value would be RM 820,000. What would be its new stock price per share?

(20 marks)

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